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SUBJECT: China's Food Security Concerns: Perception
and Reality

Refs: A) Beijing 03519,
B) USDA/FAS GAIN Report Number: CH8062;
C) USDA/FAS GAIN Report Number: CH8063;
D) FBIS Number: Cpp20080725338011;
E) USDA/FAS GAIN Report Number CH8077
and 2007 China Statistical Yearbook;
F) USDA/FAS Beijing Mark Petry Email

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11. (SBU) Summary: Although China is largely self-sufficient in grain production, rising global and domestic food prices have reinforced longstanding Chinese concerns about food security. This has sparked a debate in China over whether China's current policies need to be adjusted to ensure China can continue to meet its goal of food self-sufficiency. In addition, Chinese government officials and press have become increasingly vocal in recent months about a perceived threat that foreign companies and trade could pose to China's food self-sufficiency. China's focus on the issue has also been sharpened as rising incomes have led to growing Chinese food consumption, while development and pollution have whittled away at China's arable land. End Summary.

12. (SBU) The official Chinese press has recently carried numerous articles penned by prominent policy makers and economists hailing the importance of food security (Ref A). Likewise, rural economy experts at the Chinese Academy of Social Sciences (CASS), Chinese Communist Party Central Policy Research Office (CPC/CPRO), State Council Development Research Center (DRC), Renmin University, and Henan Agriculture University all emphasized the importance of food security in recent meetings with Econoffs. Although food security is not a new topic, and indeed has long been an important theme in China's rural and agricultural policies, the tempo of the discussion seems to have increased.

Overkill?: China's Food Security Focus

13. (SBU) The Chinese government has traditionally believed that domestic production--vice trade and diversified sourcing--is the best means to guarantee the country's food supply. The government most-recently reiterated this goal at an early July 2008

State Council meeting on China's grain security plan chaired by Premier Wen Jiabao (Ref B). The plan again stated China's grain self-sufficiency target rate of 95 percent. In July Wen also announced an additional \$3 billion in state support for the development of agricultural biotechnology over the next 15 years, signaling China's intent to use biotechnology as a key means to address food security (Ref C). Rural and agriculture issues are also on the agenda to be discussed at the upcoming Third Plenary Session of the 17th CPC Central Committee in October (Ref D).

¶4. (SBU) China exceeds the 95 percent self-sufficiency target rate in rice, wheat and corn, and in recent years has produced and exported a significant surplus of most agricultural products, especially processed products. However, China has become a large net importer of oilseeds and edible oils, and according to Chinese government statistics, domestically produced soy beans held only 31.2 percent market share in 2007. (Note: According to CPC/CPRO official Zheng Xinli 62 percent of edible oil is imported and 70 percent of domestic production comes from foreign-invested companies that imported oil crops from their home countries. End Note.)

¶5. (SBU) Adding to the perception of decreased self-sufficiency, in the first half of 2008 China became a net food importer in cash terms, as soaring prices for primary and intermediate commodities ate into its surplus in value-added, processed agricultural exports. (Note: While we do not yet have numbers for 2008

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agriculture production, the USD 7 billion food deficit for the first half of 2008 is only about three percent of China's 2006 total half-year farming and animal husbandry production. Since agricultural production has increased, the share should be even smaller now. Ref E. In Ref A Ren Yifang, Secretary General of the China Society for WTO Studies, cited a USD 10 billion deficit in agriculture trade with the United States. According to USDA statistics the 2007 U.S.-China trade deficit in the broader agricultural products category was actually USD 5.4 billion. Ref F. End Note.)

Policymakers Balance Rural Development, Food Security

¶6. (SBU) Many rural economists are concerned that the goals of increased rural incomes and grain self-sufficiency are incompatible. Henan Agricultural University economist Zhang Dongping asserted that there is often an inverse relationship between economic development and grain production. Transitioning labor from farming to non-farm activities is needed to increase agricultural productivity and raise living standards, according to Zhang, but local leaders also face a dilemma because raising rural incomes often means de-emphasizing grain production. While Henan and some other traditional grain producing centers are trying hard to balance industrialization with the central government's goal of maintaining grain production, he thought a number of breadbasket provinces such as Shandong, Zhejiang, Jiangsu and Hunan are shirking their role in helping China maintain grain self-sufficiency. (Note: According to Chinese government statistics, Henan's overall grain production by volume increased 17.8 percent between 2000 and 2006. Over the same period production fell 14.5 percent in Jiangsu, 5.2 percent in Shandong, 0.7 percent in Hunan, and 36.5 percent in Zhejiang. End Note.)

¶7. (SBU) Gross rural incomes increased 10.3 percent in the first half of 2008, and Embassy contacts at CASS and Henan University agree higher income and benefits for farmers combined with direct subsidies for grain production have thus far helped maintain production despite the loss of arable land (e.g. through urbanization and desertification) and water shortages. However, agriculture inputs prices rose at the same or a higher rate as production, meaning that net farm income actually may not have improved significantly. Also, the Ministry of Agriculture recently announced that the per capita urban-rural income gap expanded in 2007 to RMB 9,464 (USD 1,382), the largest in 30 years. In meetings with Econoffs, Chinese scholars such as Yang Tuan at CASS and Wen Tiejun at Renmin University expressed reservations about the reach and effectiveness of recent policy initiatives to improve rural livelihoods and reduce poverty through direct subsidies, encouraging specialized rural collectives, eliminating the agriculture tax, and channeling funds to improve the rural safety net. Wen, Yang and others emphasize the central government's over-riding concerns about social and political stability when dealing with rural issues.

Confidence in the Market Lacking

¶8. (SBU) Market mechanisms and the private sector clearly are playing an increasing role in developing China's agriculture sector and meeting its food security goals. Beijing University economists Lu Feng and Xie Ya, writing in a December 2007 academic working paper, even assert that food has ceased to be a sensitive political issue and that the market economy is now the predominant tool shaping solutions to China's food security challenges.

¶9. (SBU) While most of our interlocutors agree that market forces are playing a greater role, the majority

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believe that food policy, especially with regard to price stabilization, will continue to be of critical importance because food items are the second largest part of the Chinese CPI after housing and are the most variable. All expressed concern about allowing the market too much of a role in agricultural policy and the setting of prices. A Henan Provincial Development and Reform Commission official recently cited the role of foreign speculators in driving up grain prices, and editorial comments in the PRC press raise concerns about the vulnerability of China's agricultural sector to foreign competition and the growing role of foreign investors in China's grain storage industry. Recent articles have criticized growing foreign investment in pork production as well, noting the activities of a subsidiary of Goldman Sachs in buying up small scale producers. (Note. According to press reports a Goldman Sachs-controlled fund is investing in Henan Province-based Shuanghui Group and its subsidiary, Henan Shuanghui Investment and Development Co., China's largest meat and poultry processor. But Goldman Sachs apparently has not received final approval for the deal. End Note.)

¶10. (SBU) A number of Embassy contacts emphasized that such fears are not new. CASS Rural Development Institute Director General Zhang Xiaoshan noted that similar arguments were made around the time of China's WTO accession in 2001. Cargill's Director of Government Affairs in China told Econoffs that these concerns also underlie criticism of large multinational agricultural commodity firms in China and that Cargill is lobbying Chinese policymakers to

avoid measures to protect domestic producers from the perceived threat. China recently added new restrictions on investments in the oil seed crushing industry to the latest version of its foreign investment guidance catalogue.

Comment

¶11. (SBU) Most scholars highlight the deep-seeded historical and political concerns associated with food security and rural development issues. These concerns include: the national security implications of losing grain self-sufficiency; rural instability resulting from lost domestic markets; and inflation that could eat away at Chinese citizens' savings. These analysts emphasize that failure to tackle these challenges could cripple the leadership's ability to govern, and note that the leadership's interest in food security at times affects its ability to engage constructively with international partners.

¶12. (SBU) While compared to Japan or even the United States, the volume of Chinese agricultural imports remains low, the composition of these imports has concerned Chinese policymakers. Oilseeds and edible oils in particular touch many sensitive markets, including cooking oil and animal feed. Edible oil is an important inflation bellwether for many Chinese. After seeing the impact of, in their view, unfettered market access on edible oil and oil seed prices, it is not surprising that many Chinese policymakers are not anxious to throw open domestic agricultural markets.

¶13. (SBU) Faced with the multiple goals of improving farmers' net incomes while also ensuring grain security and price stability, Chinese rural policymakers need assurances that they can control outcomes before they open to imports.

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